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The World Bank's environmental agenda

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At the 1997 UN General Assembly Special Session on the Environment, James D. Wolfensohn, the President of the World Bank, emphasized the following set of global environmental problems: climate change, biodiversity and sustainable forestry, desertification and land degradation, water, and ozone depletion (World Bank 1997a). He stated:

> These [responses to global environmental issues] are not fringe activities. They are central to meeting human needs and reducing poverty. I wholeheartedly commit the Bank to do all it can to forge a global partnership to promote equitable approaches to global environmental issues, and to do so quickly. Time is not on our side. This agenda cannot afford to wait.

The World Bank consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The aim of the organization is to help its borrowers reduce poverty. The IBRD and the IDA make loans to borrower governments for projects and programmes that promote economic and social progress so that people may live better lives. The IBRD, established in 1945, lends only to credit-worthy borrowers and only for projects that promise high real rates of economic returns to the country. The IBRD borrows most of the money its lends in capital market across the globe. The IDA was established in 1960 to provide assistance to poorer developing countries that cannot meet the IBRD's near-commercial terms. The IDA provides

credits to the poorest countries – those with an annual per capita GNP of US$785 or less. IDA credits carry no interest. Unlike the IBRD, most of the IDA's funds are contributed by developed countries (World Bank 1997c).

Environmentally sustainable development is one of the World Bank's fundamental objectives. The World Bank invests in projects with primarily environmental objectives, in addition to its regular investment portfolio. The World Bank is also an implementing agency of the Global Environment Facility (GEF) and the Multilateral Fund for the Montreal Protocol (MFMP), which are two important global financing mechanisms established to assist developing countries in addressing global environmental concerns (World Bank 1996).

Some of the projects funded by the World Bank in the past were criticized by environmentalists, even in the late 1960s, in terms of the World Bank's negligence over the environmental impacts of the projects it supported (Mikesell and Williams 1992). A review of 25 years of the World Bank's history (Mason and Asher 1973) suggested that environmental aspects external to the projects (such as increased incidence of waterborne disease resulting from projects that change the pattern of water distribution and usage) had not been seriously considered by the World Bank at the project preparation stage.

There is little doubt that the World Bank is much better prepared to work on environmental issues than it was a decade ago. The number of environmental staff members, both for development of environment-oriented projects and for review of ordinary lending projects from the environmental point of view, has increased from five in the mid-1980s to around 300 today. A vice-presidency for environmentally sustainable development was established in 1993. The World Bank is now the world's largest lender to the developing world for the environment. The World Bank's lending for environmental projects amounted to US$11.6 billion in the 1997 fiscal year, while it was just US$30 million in 1986 (World Bank 1997c).

Moreover, the World Bank has shown its willingness to ''mainstream'' global environmental concerns into its regular lending and non-lending service, and take a major intellectual and policy leadership role (World Bank 1997a).

An essential question that must be addressed is whether the existing mechanisms within the World Bank are adequate to deal with environmental issues, and what sort of room remains for the institution to further enhance its capacity. This chapter does not intend to touch upon all the environmental issues associated with the World Bank's activities. It rather aims at pointing out a few somewhat ''generic'' or institutional issues within the system of the World Bank in dealing with environmental matters. Three such issues will be discussed in the following sections.[1]

Upward harmonization or pollution displacement

There is no reason not to believe that a Bank-financed project is in general ''cleaner'' than other projects of the same sort in the developing world. For example, a World Bank document (World Bank 1995) mentions that the Bank-financed coal-fired thermal power plants implemented over the last ten years are significantly less carbon-intensive than the same sort of projects not financed by the World Bank. That is, the Bank-financed thermal power plants consume less carbon per unit of energy produced.

This difference is due largely to the environmental conditions attached to the Bank-financed projects. A loan agreement between the World Bank and a borrower is usually accompanied by conditions which the borrower is obliged to observe. Often, some of these conditions relate to environmental standards; an example would be emissions standards for a thermal power station. The standards specified tend to be more stringent than those that would hold domestically under other circumstances. As long as a borrower sticks to the conditions, Bank-financed projects are destined to be ''cleaner'' than others.

One of the major aims of applying tighter standards to a Bank-financed project is ''upward harmonization'' of environmental standards within a country, in that a Bank-financed project is supposed to serve as a vehicle to improve environmental standards in a developing nation. The idea is that if the World Bank were to compromise the level of standards in accordance with the borrower's perceived capacity, it may increase a risk of downward harmonization of standards, which leads to a deterioration of the environment in the developing world.

Is environmental conditionality really instrumental in improving environmental standards in developing countries? In other words, does the World Bank's model of ''upward harmonization'' work in practice?

The idea seems too optimistic, at least under some circumstances. Take a coal-fired thermal power plant as an example. In a large country which produces both ''clean'' and ''dirty'' coals, the government may selectively provide the Bank-financed power plant with ''clean'' coal, so that the power station can maintain the emission standards (such as SO_x and NO_x concentration) requested by the World Bank. In this case, ''dirty'' coal is fed into other power plants which are not subject to the tighter environmental standards. This ''displacement of pollution'' arrangement is, from the viewpoint of the government, the most cost-effective way of sticking to the conditions specified by the World Bank.

It is questionable, under such circumstances, whether the Bank-financed power station could function as a locomotive towards environmental ''upward harmonization'' in the country. A rather pessimistic scenario is that the government abandons the effort to provide the Bank-

financed power plant selectively with ''clean'' coal as soon as the last World Bank evaluation mission has left the country. This viewpoint stems from the fact that the conditions attached to a particular project may provide little incentive for the borrower to apply the same ''high standards'' for the entire nation.

This problem is partly due to the fact that an ordinary environmental assessment (EA) does not examine ''indirect'' impacts of a particular project on the borrower as a whole: in this case, investigating whether a Bank-financed ''clean project'' could improve the ''upward harmonization'' within the same sector by providing the government with some incentives. The importance of ''sectoral'' EA has been stressed by the World Bank (World Bank 1995), so that environmental issues of a particular sector could be analysed in relation to policies, institutions, and development plans. However, even existing sectoral EA methodologies do not seem adequate to evaluate the impact of a Bank-financed project (with environmental conditions attached) on activities ''downstream'' of the sector in question.

Another important question to ask about environmental conditionality is whether the environmental requirements specified in a particular project are realistic for the borrower or not. In other words, have the conditions been developed in accordance with the institutional capacity of countries in the developing world and the availability of properly trained staff? Needless to say, the conditions attached to a project are unlikely to be adhered to if the borrower lacks sufficient human resources as well as institutional and legal frameworks.

Does the World Bank have enough working knowledge about the capacity of borrowers, to the extent that a rational judgement could be made about the feasibility of environmental conditions attached to a particular project (provided borrowers are sincerely willing to implement the conditions)? Only a limited number of sectoral EAs have been conducted within the framework of the World Bank's lending operation for a particular project (World Bank 1995), and it sounds too optimistic to believe that the World Bank has working knowledge about the institutional capacity of the borrower.

Attaching many conditions to a project does not necessarily lead to better environmental protection in the borrowing country than would a smaller number of conditions. Environmental conditions to be attached to a project should thus be based on sound grounds to believe that the borrower is willing to observe the conditions, hopefully even after completion of the project, and also equipped with sufficient human resources to implement them successfully.

For this purpose, the World Bank should conduct more sectoral EAs in a borrowing country to assess the capacity of the country in various

sectors, and carefully examine whether the environmental conditions attached to a project are rational and implementable for the particular borrower.

Lack of mechanisms to deal with transboundary issues

There is reason to believe that the World Bank is now better equipped with mechanisms to deal with global environmental issues than it was, say, a decade ago. The GEF is the major instrument for this purpose.[2] It is a financial mechanism that provides grant and concessionary funding to recipient countries for projects and activities that address climate change, biological diversity, international waters, and depletion of the ozone layer. The GEF covers the difference (or increment) between the costs of a project undertaken with global environmental objectives in mind, and the costs of an alternative project that a country would have implemented in the absence of global environmental concerns. The World Bank management approved 70 projects in more than 50 countries, totalling GEF grant commitments of US$670 million, between the GEF's inception in 1991 and February 1997 (World Bank 1997b).

Are the GEF and other similar mechanisms sufficient to allow the World Bank to deal with various aspects of the global environment? Is the World Bank sufficiently prepared to tackle environmental issues, which are transboundary in nature, not necessarily ''global,'' and could be solved only through the collaboration of related countries?

The latest list of the World Bank's environmental projects (World Bank 1997a) includes 85 projects under the category of the ''Global Environment Facility Investment Work Programme.'' Of these, only seven projects are designated as ''regional,'' two projects are under the ''global'' category, and all the rest are activities within a single country. To be more precise, the two ''global'' projects are the pilot phase and replenishment of the ''Small and medium scale enterprise programme.'' Of seven ''regional'' projects, three are ''Oil pollution management projects in seas,'' two are ''Ship-generated waste management,'' and the remaining two projects concern ''Community-based natural resource and wildlife management'' and ''Lake Victoria environmental management.''

This list of ''global'' and ''regional'' projects suggests that issues which can only be solved with a regional and collaborative initiative have not yet been adequately addressed by the World Bank, even with the aid of the GEF.

This may stem from the fact that the World Bank system has been tailored, in principle, for planning and implementation of its lending operation. The lending operation is essentially a matter to be negotiated

and agreed upon between one particular borrower and the World Bank. Mechanisms to deal with a ''regional'' issue, in which more than one country ought to be involved, are thus generally lacking within the system. It is also the case with environmental issues. The lack of such a mechanism is fatal in dealing with regional problems, which can only be solved through collaboration among countries in the region.

Take the transboundary water resources issue as an example. The water resources and related environment of the world are under enormous stress (GEF 1995). Though efficient use and effective conservation of water resources are required in various water systems, attaining such goals is difficult in international water bodies, because it requires cooperation among riparian countries. Riparian conflicts hamper the ability of many countries to utilize shared water resources optimally (Kirmani and Le Moigne 1997).

Some 60 per cent of the world's population live in the watershed of an international water system. The global community is thus in need of modalities to deal with international water bodies in a much better way, in terms of both water quantity and quality. As in armed conflicts among nations, international organizations are expected to serve as a mechanism to mitigate conflicts among riparian countries, with a view to more rational management of the shared water system. However, international organizations as a whole, let alone the World Bank, have so far had very limited success in serving such a function. In only a few exceptional cases, such as UNEP's initiative in formulation of the Zambezi Action Plan (adopted by riparian countries of the Zambezi River basin in 1987) and the UNDP's role as mediator among basin countries of the Mekong River in the early 1990s (towards a new framework of cooperation adopted in 1995 by riparians), were international organizations instrumental in the formulation of an agreement among basin countries (Nakayama 1997).

The Indus Water Treaty adopted in 1960 by India and Pakistan is still regarded as the only ''success story'' of the World Bank in transboundary fresh water bodies, in that the World Bank successfully acted as mediator between two riparian countries and that it let the riparian countries agree upon the ways and means of sharing the water resources of the Indus River. The World Bank has, however, made few direct interventions in international water affairs in the 37 years thereafter (Kirmani and Rangeley 1994).

The case of the Aral Sea basin may be a good example in this context. The World Bank (in practice) took over from UNEP in 1992 the leading role in dealing with the environmental disaster of the Aral Sea region. The activity was initiated by UNEP in 1989 in response to a request by the former Soviet Union. It was then expected that the World Bank could serve as a coordinator, both among basin countries and within the donor

community, so that an integrated regional scheme would be developed and implemented to cope with the environmental disaster. The Aral Sea Basin Unit was established in the World Bank to administer certain donor funds and ensure international coordination. The progress thereafter has been, to say the least, not as fast as it was hoped to be. Though the lending operation of the World Bank was initiated in all the basin countries (former republics of the Soviet Union in Central Asia), the development of a regional environmental programme and its implementation to deal with the Aral Sea problem has experienced a substantial delay. In particular, the idea of the World Bank coordinating donors has encountered difficulties, and a planned meeting of donors was postponed by a few years. The meeting was at last organized in October 1997, though not as a ''donors' meeting'' but just as a ''meeting of participating bodies.''

The Aral Sea Basin Unit was abolished, even before the ''meeting of participating bodies,'' without establishing a fully fledged action programme, with support from donors, to combat the environmental disaster. This partly stemmed from the lack of support for the activity of the Aral Sea Basin Unit from other operational units, presumably because developing lending operations could be conducted independently of the Aral Sea Basin Unit's efforts. In other words, there were only limited incentives within the World Bank to promote the initiatives of the Aral Sea Basin Unit as a flagship of the World Bank as a whole.

What is apparently lacking within the World Bank is a functioning mechanism to deal with environmental issues of a transboundary nature, with due support from other operational units. In this context, could an ad hoc mechanism such as the now-defunct Aral Sea Basin Unit really be functional and instrumental? The institutional framework of the World Bank has been optimized for country-by-country lending operations. It thus generally lacks built-in incentives within the system to work on regional issues, as shown by the project portfolio of the past GEF projects.

A rational answer to this issue is establishing a new (and not ad hoc) built-in institutional framework to deal with transboundary issues. However, the feasibility and/or desirability of establishing such a mechanism should be judged from various viewpoints. For example, promoting regional collaboration (for the sake of a transboundary environmental problem) may let the World Bank use ordinary lending projects either as ''carrot'' or ''stick,'' as was in practice the case with the World Bank's ''success story'' in the Indus River basin (Nakayama 1997). Conducting such an operation for the purpose of solving transboundary environmental issues may provoke a burning controversy both within and outside of the World Bank, for it would constitute a major departure from the present World Bank mode of operation.

The role of the World Bank as an international organization should

therefore be re-examined in this regard; namely whether the World Bank is really the best actor (among various international institutions) to deal with transboundary environmental issues.

Environmental assessment for programme lending

The staff of the World Bank have been required, since 1989, to classify all proposed investment projects in accordance with their potential impacts on the environment. The classification depends on the type, location, sensitivity, scale, nature, and magnitude of potential impacts. Category A projects are supposed to have significant, irreversible impacts on environments that are sensitive and diverse (World Bank 1997a). The projects under this category are subject to a full EA. Category B projects may have less significant impacts than those under Category A, and few if any of the impacts are irreversible. An EA is not mandatory for Category C projects, which are supposed not to have adverse environmental effects.

Of 598 projects screened by the World Bank between 1993 and 1995 for their potential environmental impacts, 67 projects (11 per cent) were classified as Category A, 242 (40 per cent) projects were classified as Category B, and the remaining 289 projects (48 per cent) were classified as Category C (World Bank 1995). Category A projects were concentrated in the agriculture, energy and power, transport, urban, and water and sanitation sectors.

It is remarkable that all the 19 Category A projects approved by the World Bank (IBRD/IDA in this case) are ''project'' type of lending, and no ''programme'' lending falls under this category. The programme lending in this context represents loans for structural reform and sector reform, commonly known as structural adjustment loans (SALs).

Most of the World Bank's loans are for specific projects. However, under the assumption, which is based on past experiences, that projects have a high rate of failure in an unstable or distorted economic environment, the World Bank initiated the SAL for borrowers in the early 1980s. The SAL is designed to support basic changes in economic, financial, and other policies; these may include a greater reliance on market forces; reduced government price interventions and subsidies; limits on public sector involvement in industrial and agricultural production; a better business environment and greater reliance on the private sector; a more open trading system to provide a better yardstick for efficiency; and stimulus for competition and export growth.

The adjustment lending in 1995 amounted to 24 per cent of the World Bank's commitments, which is some 10 times larger than the controversial lending for construction of large dams (which forms a 2 or 3 per cent share of the World Bank's overall portfolio).

It has been a matter of dispute between NGOs and the World Bank whether SALs have had adverse environmental effects or not, in particular for low-income groups in a country. A WWF International report (Reed 1992) examined the consequences of SALs in three countries (Côte d'Ivoire, Mexico, and Thailand) and concluded that the development paths these three countries pursued had created high levels of environmental degradation and generated unnecessary waste and loss of national wealth. On the other hands, a report by the World Bank (Munasinghe and Cruz 1995) reviewed several cases, with a view to identifying the broad relationship between economy-wide policies and the environment, and offered recognition of the generally positive environmental consequences of economy-wide policy reforms.

At this stage there is no clear-cut answer to the question of whether SALs improve or degrade the environment; a lot more effort and time is required to establish a solid view.

An important question to ask, however, is why no such programme lending (i.e. SAL) has been found in Category A projects, despite the fact that the magnitude of structural reform and sector reform programmes are, in terms of the amount of funds, much larger than a single project for one hydroelectric power station? This has been a matter of dispute among NGOs and lending institutions such as the World Bank.

Has the World Bank developed EA methodologies that are applicable for programme lending operations? Such loans could have much larger impacts, in accordance with the amount of funds involved, than loans for a single project. The cause-and-effect relationship of SALs ought to be quite complicated, for SALs may affect various sectors in various forms within a country. The analytical frameworks employed for both of the previously mentioned reports (WWF International and the World Bank) seem rather empirical and experimental. Without a solid methodology, it may be hard for a project officer or an environmental specialist to put a SAL project into Category A.

It is safe to say that existing knowledge about estimating possible impacts of SALs may be insufficient to develop a functional EA methodology for such a programme lending operation. However, now that a quarter of World Bank loans fall under this category, it seems imperative to put more resources to work on this issue. It is even surprising to the author that although SALs have been condemned by NGOs as great threats to the environment in various countries, very few quantitative (or numerical) analyses have ever been conducted by those involved (i.e. NGOs and lending institutions), and that there is therefore still no working knowledge to develop an EA methodology to deal with SALs.

The solution to this issue may be rather simple, and probably the easiest to implement (among the three issues discussed in this chapter), for it is just a matter of resources (both human and financial) available to

elaborate an EA methodology to deal with SALs, and such measures would not require a philosophical debate on the way of thinking (as in the case with upward harmonization or pollution displacement) nor a fundamental review of the mandate of the World Bank as an international organization (as with the lack of a mechanism to deal with transboundary issues).

Conclusion and considerations

Three issues related to the environment, which need further institutional enhancement and methodological advancement within the World Bank, have been examined from the viewpoint of identifying possible solutions.

The issue raised under ''Upward harmonization or pollution displacement'' seems rather generic in the system, for it relates to the philosophy of environmental conditions. It may require some fundamental changes within the system, in the context of the way of thinking about the possible ''trickle-down effect'' of Bank-financed projects in the developing world. Improvements could be achieved by putting more human and financial resources (such as more sectoral EAs in the borrowing countries) into the existing institutional framework of the World Bank.

The issue of ''Lack of mechanisms to deal with transboundary issues'' must require some drastic and rather fundamental (in terms of the mandate of the organization) changes to the present institutional and operational framework of the World Bank. Achieving a solution is simply more difficult and may require more efforts and resources than the first issue. The feasibility of possible solutions within the World Bank to this issue should be examined from various viewpoints, as mentioned above, including the mandate of the World Bank.

The rather limited success of UNEP in implementation (after having the agreement adopted by riparian countries) of the Zambezi Action Plan (Nakayama 1997) may suggest that the present catalytic role of UNEP is not sufficiently functional for transboundary environmental issues, while the ''super-UNEP'' or ''World Environmental Organization'' may not be a solution in this regard as suggested by Downie and Levy in their chapter in this volume. The World Bank could still be found the best-situated international organization to work on transboundary environmental issues, as implicitly hinted by Downie and Levy, but it is still an open question subject to various debates in the future.

The issue mentioned in ''Environmental assessment for programme lending'' apparently requires more research efforts in developing solid EA methodologies to encompass the rather complex cause-and-effect relation of the impacts of SALs, because they involve a nationwide reform

policy. The solution thus may simply depend on the availability of resources (both human and financial) for the research efforts needed.

Solutions for these problems may not necessarily be mutually compatible: for example, changing the institutional framework of the World Bank for the sake of working on transboundary issues (shifting more human resources from country operation into regional operation, for example) might be feasible only at the cost of enhancing its capacity to deal with the SAL-related matter, which is particularly an issue for a single country.

Institution-wide review is apparently needed to give priority to these issues, which are currently not adequately addressed in the system, so that the World Bank could make best use of its finite financial and human resources to cope with national, regional (transboundary in the context of this chapter), and global environmental issues. Sharing of environmental responsibilities with other international (bilateral and multilateral) organizations should also be examined to find an optimized solution, in the framework of international organizations as well as the donor community as a whole. Such discussions are particularly required about the ways and means of dealing with transboundary environmental issues, for it is not clear at this stage if the World Bank should make rather drastic (even regarding its institutional mandate) and costly (in terms of resources available within the system) changes for the sake of working on the issue.

Notes

1. This chapter is based on interviews conducted with several staff members of the World Bank, both in environmental and non-environmental sections, in addition to a literature survey of relevant documents. The author wishes to express his thanks to those interviewees, who will remain anonymous, for their assistance.
2. GEF projects and programmes are managed through three implementing agencies: the UN Development Programme (UNDP), the UN Environment Programme (UNEP), and the World Bank.

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